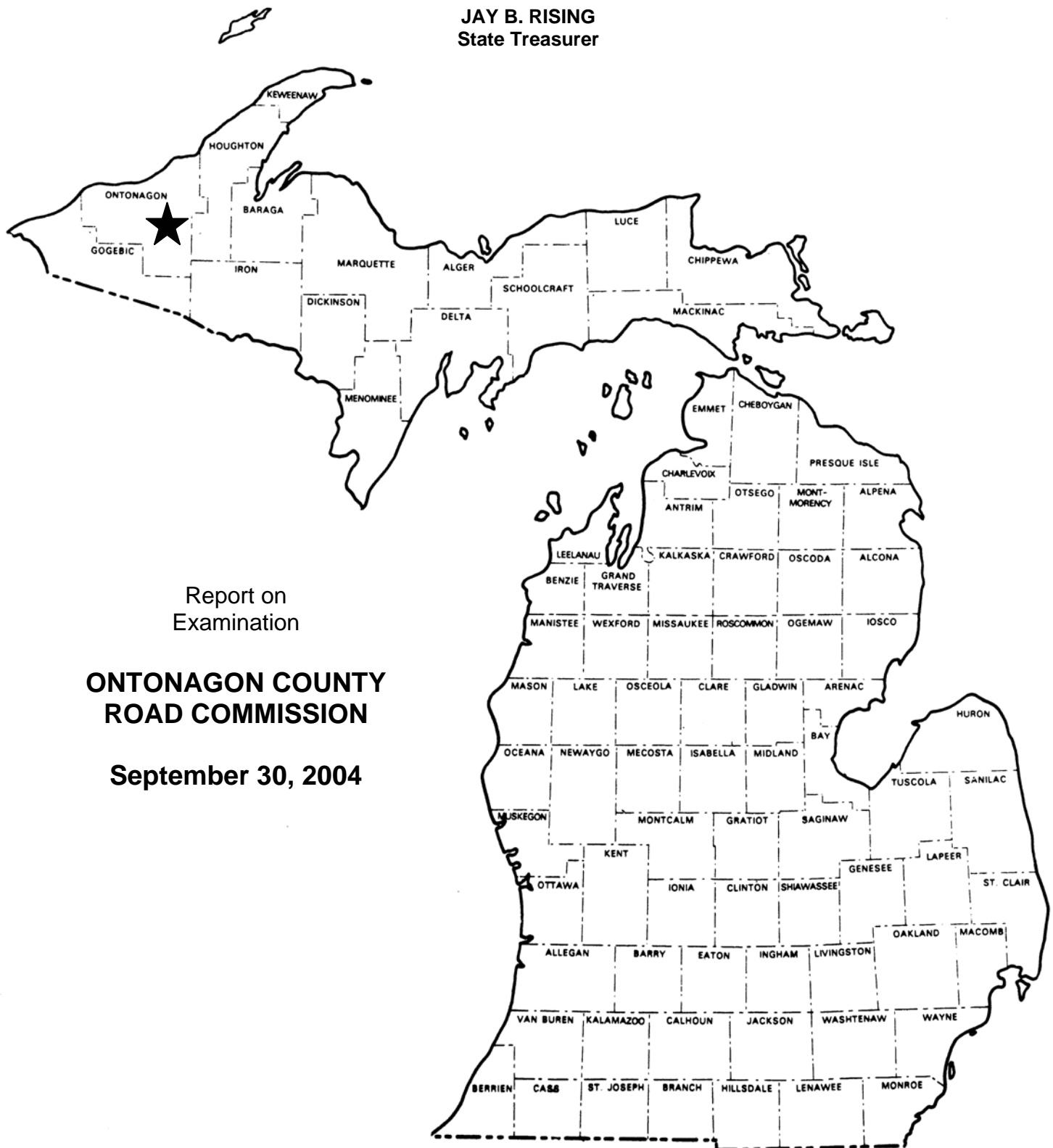


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

**ONTONAGON COUNTY
ROAD COMMISSION**

September 30, 2004

Local Audit and Finance Division
Bureau of Local Government Services

ONTONAGON COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

John Brunton
Chairperson

Donald Bussiere
Vice Chairperson

Otto Dickow
Member

Michael Maloney, P.E.
Engineer/Manager

Robert J. Bessen
Business Manager

COUNTY POPULATION--2000
7,818

STATE EQUALIZED VALUATION--2004
\$291,810,412



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

March 3, 2005

Ontonagon County Road Commission
Board of County Road Commissioners
414 Spar Street
Ontonagon, Michigan 49953

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities of the Ontonagon County Road Commission, a component unit of Ontonagon County, Michigan, as of and for the year ended September 30, 2004, which comprises the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ontonagon County Road Commission as of September 30, 2004 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 6 and the budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated March 3, 2005 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants.

As discussed in Note N of the basic financial statements, the Ontonagon County Road Commission has adopted Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*; Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Ontonagon County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ONTONAGON COUNTY ROAD COMMISSION

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ONTONAGON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The Ontonagon County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

ONTONAGON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Report the Road Commission's Major Fund

The fund financial statements begin on page seven and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 7.84% or \$282,218 from \$3,599,856 to \$3,882,074 for the year ended September 30, 2004. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$331,728. The investment in capital assets, net of related debt decreased by \$57,191, which was primarily due to the current year's \$344,210 increase in infrastructure, \$160,198 increase in equipment, and \$561,599 decrease due to depreciation.

Net assets as of year ended September 30, 2004, are as follows:

	<u>Governmental Activities</u>
Current and Other Assets	\$ 2,559,828
Net Capital Assets	<u>2,995,087</u>
Total Assets	<u>5,554,915</u>
Current Liabilities	701,670
Noncurrent Liabilities	<u>971,171</u>
Total Liabilities	<u>1,672,841</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,995,087
Restricted	<u>886,987</u>
Total Net Assets	<u><u>\$ 3,882,074</u></u>

ONTONAGON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

Because this is the first year of implementation of Governmental Accounting Standards Board Statement (GASB) No. 34, which requires this new reporting model, the following table presents only current year data. In future years, when prior year information is available, comparative analysis of Road Commission data will be presented.

A summary of changes in net assets for the year ended September 30, 2004 follows:

	Governmental Activities
Program Revenue	
Federal Grants	\$ 42,288
State Grants	2,599,818
Contributions From Local Units	4,814
Charges for Services	1,949,278
Investment Earnings	15,029
Private Contributions	2,417
General Revenue	
Taxes	796,639
Insurance Recoveries	127,878
Total Revenue	<u>5,538,161</u>
Expenses	
Primary Road Maintenance	641,539
Local Road Maintenance	1,574,455
State Trunkline Maintenance	1,917,879
Net Equipment Expense	719,664
Net Administrative Expense	275,194
Infrastructure Depreciation	107,038
Compensated Absences	20,174
Total Expenses	<u>5,255,943</u>
Increase in Net Assets	<u><u>\$ 282,218</u></u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

ONTONAGON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended September 30, 2004, the fund balance of the General Operations Fund increased \$351,902 as compared to a decrease of \$285,286 in the fund balance for the year ended September 30, 2003. Total operating revenues were \$5,530,479, an increase of \$323,045 as compared to last year. This change in revenues resulted primarily from an increase in Trunkline Maintenance and insurance recoveries.

Total expenditures were \$5,178,577, a decrease of \$314,143 as compared to last year. This change in expenditures is primarily the decrease in capital outlay in the current year.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

The original revenue budget for 2004 was more than the actual revenue by \$330,521. This was due, in large part, to the fact that the Federal Aid, Critical Bridge project of \$400,000 which was budgeted, did not happen.

The Road Commission's original expenditures were projected at \$5,750,000, while actual expenditures were \$5,178,577. This resulted in total expenditures being under budget by \$571,423. This was primarily due to the Primary Heavy Maintenance being reduced by the \$400,000 for the bridge project and the reduction in Capital Outlay.

ONTONAGON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2004, the Road Commission had \$2,995,087 invested in capital assets as follows:

	2003	2004	Total Percentage Change 2003-2004
Capital Assets Not Being Depreciated			
Infrastructure--Land	\$ 10,412	\$ 10,412	0.00%
Infrastructure--Land Improvements	39,026	39,026	0.00%
Subtotal	49,438	49,438	0.00%
Capital Assets Being Depreciated			
Depletable Assets	1,408	1,408	0.00%
Buildings	2,244,934	2,244,934	0.00%
Equipment	6,057,444	5,978,451	-1.30%
Shop, Office and Engineer Equipment	236,636	228,257	-3.54%
Infrastructure	856,305	1,200,515	40.20%
Subtotal	9,396,727	9,653,565	2.73%
Total Capital Assets	9,446,165	9,703,003	2.72%
Total Accumulated Depreciation	(6,393,887)	(6,707,916)	4.91%
Total Net Capital Assets	<u>\$ 3,052,278</u>	<u>\$ 2,995,087</u>	<u>-1.87%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$344,210. The infrastructure recorded, during 2004, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions. The Road Commission has retroactively reported infrastructure assets (assets acquired after 2002) in the current year as reported above under "2003."

This year's major capital asset additions included the following:

Reconstruction of Bridges (by location)	\$ 11,952
Various Resurfacing Projects and Related Land/Right-of-Way	332,258
Trucks/Equipment	143,953
Administrative and Engineering	16,245
Total Additions	<u>\$ 504,408</u>

ONTONAGON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

There were no installment purchase agreements entered into during 2004, all the equipment was acquired with Road Commission funds.

During 2004, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$222,946, related depreciation of \$222,946, and net book value of \$0.00.

Debt

The Road Commission currently experiences a relatively debt free status. The Road Commission currently has long-term debt in the amount of \$584,954, an increase of \$20,174 from the prior year, which represents compensated absences payable at September 30, 2004.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 43.63% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Ontonagon County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Ontonagon County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Ontonagon County Road Commission administrative offices at 415 Spar Street, Ontonagon, Michigan 49953.

ONTONAGON COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2004

EXHIBIT A

ASSETS

Cash	\$ 1,016,463
Taxes Receivable--Delinquent Personal Property	7,681
Accounts Receivable	
Sundry Accounts	36,096
State--Trunkline Maintenance	47,347
Michigan Transportation Fund	352,465
State--Other	51,328
Due on County Road Agreements	28,582
Inventories	
Road Materials	672,423
Equipment Parts and Materials	276,196
Prepaid Expenses	71,247
Capital Assets (Net of Accumulated Depreciation)	<u>2,995,087</u>
Total Assets	<u>5,554,915</u>

LIABILITIES

Current Liabilities	
Accounts Payable	213,082
Accrued Liabilities	65,432
Deferred Revenue	
Forest Road Funds	423,156
Noncurrent Liabilities	
Advances From State	386,217
Vested Employee Benefits Payable	<u>584,954</u>
Total Liabilities	<u>1,672,841</u>

NET ASSETS

Investment in Capital Assets, Net of Related Debt	2,995,087
Restricted for County Roads	<u>886,987</u>
Total Net Assets	<u><u>\$ 3,882,074</u></u>

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 641,539
Local Road Maintenance	1,574,455
State Trunkline Maintenance and Nonmaintenance	1,917,879
Net Equipment Expense	719,664
Net Administrative Expense	275,194
Infrastructure Depreciation	107,038
Compensated Absences	20,174
	<hr/>
Total Program Expenses	5,255,943
	<hr/>
Program Revenue	
Charges for Services	
Charges for Services	1,951,695
Operating Grants and Contributions	
Michigan Transportation Funds	2,412,964
Investment Earnings	15,029
Capital Grants and Contributions	
Federal Grants	42,288
State Grants	186,854
Contributions From Local Units	4,814
	<hr/>
Total Program Revenue	4,613,644
	<hr/>
Net Program Revenue	(642,299)
	<hr/>
General Revenue	
Taxes	796,639
Insurance Recoveries	127,878
	<hr/>
Total General Revenue	924,517
	<hr/>
Change in Net Assets	282,218
	<hr/>
Net Assets	
Beginning of Year	3,599,856
	<hr/>
End of Year	\$ 3,882,074
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2004**

EXHIBIT C

	<u>GOVERNMENTAL FUND TYPE</u>
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$1,016,463
Taxes Receivable--Delinquent Personal Property	7,681
Accounts Receivable	
State Trunkline Maintenance	47,347
Michigan Transportation Fund	352,465
State Highway--Other	51,328
Due on County Road Agreements	28,582
Sundry Accounts	36,096
Inventories	
Road Materials	672,423
Equipment Parts and Materials	276,196
Prepaid Expense	<u>71,247</u>
Total Assets	<u><u>\$2,559,828</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 213,082
Accrued Liabilities	65,432
Advances From State	386,217
Deferred Revenue--Delinquent Property Taxes	7,681
Deferred Revenue--Forest Road Funds	<u>423,156</u>
Total Liabilities	<u>1,095,568</u>
Fund Equities	
Fund Balance	
Reserved for Self-Insurance	121,998
Reserved for Inventory	948,619
Unreserved and Undesignated	<u>393,643</u>
Total Fund Equities	<u>1,464,260</u>
Total Liabilities and Fund Equities	<u><u>\$2,559,828</u></u>

The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE
TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2004**

EXHIBIT D

Total Governmental Fund Balance	\$1,464,260
---------------------------------	-------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,995,087
---	-----------

The long-term liability for vested employee benefits payable not available to pay for current period expenditures and, therefore, are not reported in the funds.	(584,954)
--	-----------

Deferred delinquent personal property tax revenue is not considered "available" in governmental funds, but is considered earned and is recognized as revenue in the Statement of Activities.	<u>7,681</u>
--	--------------

Net Assets of Governmental Activities	<u><u>\$3,882,074</u></u>
---------------------------------------	---------------------------

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended September 30, 2004

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Taxes	\$ 788,958
Federal Aid	42,288
State Aid	2,599,818
Contributions From Local Units	4,814
Charges for Services	1,949,277
Interest and Rents	15,029
Other Revenue	<u>2,417</u>
Total Revenues	<u>5,402,601</u>
Expenditures	
Public Works	5,018,379
Capital Outlay	<u>160,198</u>
Total Expenditures	<u>5,178,577</u>
Excess of Revenues Over (Under) Expenditures	<u>224,024</u>
Other Financing Sources	
Insurance Recovery	<u>127,878</u>
Total Other Financing Sources	<u>127,878</u>
Excess of Revenues and Other Financing Sources Over Expenditures	351,902
Fund Balance--October 1, 2003	<u>1,112,358</u>
Fund Balance--September 30, 2004	<u><u>\$ 1,464,260</u></u>

The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ 351,902
--	------------

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(57,190)
--	----------

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Revenues earned but not available for current resources are not reported in the funds	
Personal Property Taxes	7,681

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	<u>(20,175)</u>
---	-----------------

Change in Net Assets of Governmental Activities	<u><u>\$ 282,218</u></u>
---	--------------------------

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Ontonagon County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Ontonagon County Road Commission.

NOTE A--REPORTING ENTITY

The Ontonagon County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Ontonagon County Road Commission, a discretely presented component unit of Ontonagon County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Ontonagon County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts, and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Ontonagon County Road Commission as assets with an estimated useful life in excess of one year. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34. Beginning with the fiscal year ended September 30, 2003, the Ontonagon County Road Commission has capitalized each current year's infrastructure, as required by GASB No. 34 and beginning with the fiscal year ended September 30, 2004, has reported the infrastructure in the Statement of Net Assets. The Road Commission has not retroactively capitalized the major infrastructure assets as of September 30, 2004, as permitted by GASB No. 34. For the Ontonagon County Road Commission, the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34 will be October 1, 2007.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12-50 years

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Property Taxes

The 2003 State equalized valuation of Ontonagon County amounted to \$268,161,692 and the taxable valuation was \$181,062,098 on which ad valorem taxes of 4.8504 mills were levied for the Road Commission and the Village of Ontonagon's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act.

The county's 2003 ad valorem tax was levied and collectible on December 1, 2003. It is the county's policy to recognize revenues from the current tax levy in the fiscal year levied when the proceeds of the levy are budgeted and made available for financing operations. The 2003 tax levy for Road Commission operations was recorded as revenue during the year ended September 30, 2004 totaling \$788,958 for all taxes received.

Interest-Bearing Deposits

Interest-bearing deposits are recorded at cost. Interest earned is recorded as revenue when the investment matures, or when credited by the financial institution to the interest-bearing account.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in various banks in the name of the county treasurer. MCL 129.91 et seq., authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper within the two highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50% of any one fund. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 196 of 1997.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

<u>Deposits</u>	<u>Bank Deposit</u>	<u>Carrying Amount</u>
Imprest Cash		\$ 100
Insured (FDIC)	\$315,251	315,437
Uninsured	<u>659,326</u>	<u>700,926</u>
Total	<u>\$974,577</u>	<u>\$1,016,463</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

NOTE E--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Ontonagon County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 10/01/03	Additions	Deductions	Account Balances 09/30/04
Capital Assets Not Being Depreciated				
Infrastructure--Land	\$ 10,412			\$ 10,412
Infrastructure--Land Improvements	39,026			39,026
Subtotal	49,438	\$ -	\$ -	49,438
Capital Assets Being Depreciated				
Depletable Assets	1,408			1,408
Buildings	2,244,934			2,244,934
Road Equipment	6,057,444	143,953	222,946	5,978,451
Shop Equipment	135,941	4,940		140,881
Office Equipment	76,345	11,305	19,629	68,021
Engineer's Equipment	24,350		4,995	19,355
Infrastructure--Bridges		11,952		11,952
Infrastructure--Roads	856,305	332,258		1,188,563
Total	9,396,727	504,408	247,570	9,653,565
Less Accumulated Depreciation				
Building	1,052,695	80,405		1,133,100
Road Equipment	5,130,572	365,706	222,946	5,273,332
Shop Equipment	118,975	4,379		123,354
Office Equipment	69,202	3,149	19,628	52,723
Engineer's Equipment	22,443	921	4,995	18,369
Infrastructure--Roads		107,038		107,038
Total	6,393,887	561,598	247,569	6,707,916
Net Capital Assets Being Depreciated	3,002,840	504,408	561,599	2,945,649
Total Net Capital Assets	<u>\$3,052,278</u>	<u>\$ 504,408</u>	<u>\$ 561,599</u>	<u>\$2,995,087</u>

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 365,707
Indirect Equipment	
Shop Building	10,413
Storage Building	67,862
Shop Equipment	4,378
Net Administrative Expense	
Buildings	2,129
Office Equipment and Furniture	3,150
Engineers Equipment	921
Infrastructure	<u>107,038</u>
Total Depreciation Expense	<u><u>\$ 561,598</u></u>

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balances</u> <u>10/01/03</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/04</u>
Vested Employee Benefits			
Vacation Benefits	\$ 70,527	\$ 3,403	\$ 73,930
Sick Leave Benefits	<u>494,253</u>	<u>16,771</u>	<u>511,024</u>
Total	<u><u>\$564,780</u></u>	<u><u>\$ 20,174</u></u>	<u><u>\$584,954</u></u>

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. The annual vacation benefits earned by each employee are credited on the employee's employment anniversary date. Employees are required to use their vacation benefits within 1 year, except those employees earning 3 or 4 weeks of vacation may be paid at their anniversary date for any unused portion of those weeks at their regular rate of pay, with the approval of the engineer or foreman.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

Sick Leave Benefits

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day per month, with an unlimited accumulation. Upon permanent separation from employment, employees hired prior to July 1, 1994 shall be paid at their regular rate of pay for 100% of any accumulated unused sick leave. Those employees hired after July 1, 1994 shall be paid for a maximum of 80 days of accumulated unused sick leave.

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Ontonagon County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission was required to contribute at an actuarially determined rate, which was 19.88% at December 31, 2001 for the contributions for the calendar year ending December 31, 2003 of the covered payroll.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Annual Pension Cost

During the calendar year ended December 31, 2003, the Road Commission's contributions totaling \$416,971 were made in accordance with the contribution requirement determined by the actuarial valuation of the plan as of December 31, 2001. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 454,539	100%	\$0
2002	398,067	100%	\$0
2003	416,971	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/01	\$ 5,303,448	\$ 9,877,882	\$4,574,434	54%	\$2,024,994	226%
12/31/02	5,738,460	10,354,113	4,615,653	55%	2,007,959	230%
12/31/03	6,433,656	11,428,579	4,994,923	56%	1,903,230	262%

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Ontonagon County Road Commission became a charter member in October 1, 2001.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

NOTE J--RESERVE FOR SELF-INSURANCE

The Ontonagon County Board of Road Commissioners' policy is to self-insure for employee group life coverage. The self-insurance reserve account was established in 1992, and is funded by annual transfers of amounts equal to what the approximate premium would be for life insurance coverage, plus the annual interest earnings on the reserve account balance. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account is greater than the estimated premium cost. All group life benefit payments are expensed when paid and closed to the reserve account at year-end.

A summary of the changes in the reserve for self-insurance for the year ended September 30, 2004 is as follows:

Reserve Balance--October 1, 2003	\$121,998
Less: 2003/2004 Death Benefit Payment	<hr/>
Reserve Balance--September 30, 2004	<u><u>\$121,998</u></u>

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note H, the Ontonagon County Road Commission provides post-employment health care benefits and life insurance benefits in accordance with the provisions of Article 14, Section 2(E), and Section 4 of the union agreement. The post-employment health care benefit provides that the Road Commission shall pay the full hospitalization insurance plan premium for the retirees for a five-year period from the date of retirement. The Road Commission will pay 25% of the premium on a Blue Cross/Blue Shield Supplemental Insurance Plan or alternate plan capping the alternate plan at 25% of the offered Blue Cross Plan. The post-employment life insurance benefit provides that the Road Commission will provide for term-life insurance coverage of \$1,500 for each Road Commission employee who retired prior to July 1, 1992 and \$5,000 for employees who retired prior to July 1, 2003 and \$10,000 for those retired after that date.

The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year ended September 30, 2004, 19 retirees were eligible for the post-retirement health care benefits at a cost of \$140,868. As described more fully in Note J, the Road Commission self-insures for life insurance benefits, which covered 10 retirees for \$1,500, 12 retirees for \$5,000 and 7 retirees for \$10,000 during the year ended September 30, 2004.

NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2004, the Federal aid received and expended by the Road Commission was \$0 for contracted projects and \$42,288 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A single audit was not performed for the calendar year ended September 30, 2004.

NOTE M--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE N--CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 2003, the Road Commission implemented several new accounting standards issued by GASB:

Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," as amended by Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus," which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating account groups and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the "Management Discussion and Analysis Section," which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, "Certain Financial Statement Note Disclosures," which requires certain note disclosures when implementing GASB Statement No. 34.

NOTE O--STATE TRUNKLINE MAINTENANCE REVENUE AND EXPENDITURES

The \$30,133 difference between the State trunkline maintenance revenues of \$1,762,224 and expenditures of \$1,732,091 consists of an amount received from MDOT during fiscal year ending September 30, 2004 pursuant to an August 13, 2003 Settlement Agreement regarding liability insurance for the MDOT Trunkline Maintenance contract for the years 2002/2003and 2003/2004.

**ONTONAGON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2004**

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 740,000	\$ 743,000	\$ 788,958	\$ 45,958
Federal Aid				
Critical Bridge	400,000	-	-	-
FEMA	-	42,280	42,288	8
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,300,000	1,350,000	1,396,283	46,283
Local Road	590,000	665,000	688,695	23,695
Snow Removal	310,000	317,986	317,986	-
Economic Development Funds				
"D" Funds	300,000	-	-	-
"E" Forest Road Funds	200,000	180,000	180,000	-
FEMA	-	-	6,854	6,854
Contributions--Local Units				
Townships	100,000	4,000	4,814	814
Charges for Services				
State Trunkline Maintenance	1,900,000	1,925,000	1,762,224	(162,776)
State Trunkline--Other	-	-	185,788	185,788
Salvage Sales	1,000	-	1,265	1,265
Interest and Rents				
Interest Earned	10,000	8,000	15,029	7,029
Other Revenue				
Private Contributions	-	-	2,417	2,417
Total Operating Revenue	5,861,000	5,245,266	5,402,601	157,335
Other Financing Sources				
Insurance Recovery	-	128,990	127,878	(1,112)
Total Other Financing Sources	-	128,990	127,878	(1,112)
Total Revenue and Other Financing Sources	5,861,000	5,374,256	<u>\$5,530,479</u>	<u>\$ 156,223</u>
Fund Balance--October 1, 2003	800,000	990,361		
Total Budget	<u>\$ 6,661,000</u>	<u>\$6,364,617</u>		

**ONTONAGON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2004**

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 700,000	\$ 400,000	\$ 320,466	\$ 79,534
Maintenance	500,000	650,000	641,539	8,461
Local Road				
Heavy Maintenance	500,000	130,000	23,744	106,256
Maintenance	1,400,000	1,600,000	1,574,455	25,545
State Trunkline Maintenance	1,500,000	1,900,000	1,732,091	167,909
State Maintenance--Other	-	186,000	185,788	212
Equipment Expense--Net	400,000	715,000		
Direct			\$ 1,272,518	
Indirect			837,230	
Operating			219,925	
Less: Equipment Rentals			<u>(1,617,577)</u>	
			712,096	2,904
Administrative Expense--Net	250,000	280,000		
Administrative Expense			451,584	
Less: Handling Charges			(6,536)	
Overhead--State			(169,815)	
Purchase Discounts			<u>(39)</u>	
			275,194	4,806
Capital Outlay--Net	300,000	39,000		
Capital Outlay			160,198	
Less: Depreciation Credits			(446,994)	
Equipment Retirements			<u>-</u>	
			(286,796)	325,796
Contingency	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	5,750,000	5,900,000	<u>\$5,178,577</u>	<u>\$721,423</u>
Fund Balance--September 30, 2004	<u>911,000</u>	<u>464,617</u>		
Total Budget	<u>\$ 6,661,000</u>	<u>\$ 6,364,617</u>		

**ONTONAGON COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2004**

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$1,582,783	\$1,066,554	\$2,753,264	\$5,402,601
Total Expenditures	1,197,005	2,024,064	1,957,508	5,178,577
Excess of Revenues Over (Under) Expenditures	385,778	(957,510)	795,756	224,024
Other Financing Sources (Uses)				
Optional Transfers	(385,778)	385,778		-
Interfund Transfer		571,732	(571,732)	-
Insurance Recovery			127,878	127,878
Total Other Financing Sources (Uses)	(385,778)	957,510	(443,854)	127,878
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	-	-	351,902	351,902
Fund Balance--October 1, 2003	-	-	1,112,358	1,112,358
Fund Balance--September 30, 2004	\$ -	\$ -	\$1,464,260	\$1,464,260

ONTONAGON COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended September 30, 2004

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes			\$ 788,958	\$ 788,958
Federal Aid				
Critical Bridge				-
FEMA		\$ 42,288		42,288
State Aid				
Michigan Transportation Fund				
Engineering	\$ 6,500	3,500		10,000
Allocation	1,396,283	688,695		2,084,978
Economic Development Funds				
"D" Funds	-			-
"E" Funds	180,000			180,000
FEMA		6,854		6,854
Contributions--Local Units				
Townships		4,814		4,814
Charges for Services				
State Trunkline Maintenance			1,762,224	1,762,224
State Trunkline Nonmaintenance			185,788	185,788
Salvage Sales			1,265	1,265
Interest and Rents				
Interest Earned			15,029	15,029
Other Revenue				
Private Contributions		2,417		2,417
Total Operating Revenue	1,582,783	1,066,554	2,753,264	5,402,601
Other Financing Sources				
Insurance Recoveries			127,878	127,878
Total Other Financing Sources	-	-	127,878	127,878
Total Revenue and Other Financing Sources	\$ 1,582,783	\$ 1,066,554	\$ 2,881,142	\$ 5,530,479

ONTONAGON COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2004

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 320,466			\$ 320,466
Maintenance	641,539			641,539
Local Road				
Heavy Maintenance		\$ 23,744		23,744
Maintenance		1,574,455		1,574,455
State Trunkline Maintenance			\$1,732,091	1,732,091
State Maintenance--Other			185,788	185,788
Equipment Expense--Net (Per Exhibit H)	131,595	254,076	326,425	712,096
Administrative Expense--Net (Per Exhibit H)	103,405	171,789		275,194
Capital Outlay--Net (Per Exhibit H)			(286,796)	(286,796)
Total Expenditures	<u>\$ 1,197,005</u>	<u>\$ 2,024,064</u>	<u>\$1,957,508</u>	<u>\$5,178,577</u>



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

March 3, 2005

Ontonagon County Road Commission
Board of County Road Commissioners
414 Spar Street
Ontonagon, Michigan 49953

RE: Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Ontonagon County Road Commission, a component unit of Ontonagon County, as of and for the year ended September 30, 2004, and have issued our report thereon dated March 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the Ontonagon County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Ontonagon County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Ontonagon County Board of Road Commissioners, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division